

EXIM BANK: RESEARCH BRIEF

Southern African Development Community (SADC): A Study of India's Trade and Investment Potential



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Introduction

This study analyses recent trends in India's trade and investment relations with the Southern African Development Community (SADC), with the objective of identifying potential areas for further enhancing two-way trade and investment flows between India and the members of SADC. SADC was formed on August 17, 1992 with the objective of economic integration among member countries of the region. The SADC comprises of 15 member states, namely; Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

Economic Profile of the SADC Region

SADC is the largest contributor (in terms of GDP) to the African region, accounting for 54.3 percent of nominal GDP of Sub-Saharan Africa and 35.7 percent of GDP of Africa. Despite the continuous difficulties being experienced by the global economy, the SADC region is estimated to have performed well in 2011. Although real GDP has not yet touched the pre-crisis level of 5.4 percent growth, SADC's economy is estimated to have rebounded to reach 3.9 percent growth in 2011 from 3.6 percent in 2010. In 2011, the combined GDP of SADC countries increased to

an estimated US\$ 662.7 billion from US\$ 572.4 billion in 2010. The total GDP of SADC countries are expected to touch US\$ 702 billion in 2012, with an estimated real GDP growth of 5 percent. Per capita GDP, at current prices, of the region as a whole, was estimated at US\$ 3,768 in 2011, a 10.3 percent increase from US\$ 3,416 in 2010. The economies within the SADC region are at varying stages of development. For instance, the GDP of South Africa was much larger than the combined GDP of the remaining 14 SADC countries, with GDP of US\$ 422 billion and US\$ 240.7 billion respectively in 2011. Positive growth rates were recorded in all the member countries in 2011, except for Swaziland, accompanied by moderate inflation in most of the countries.

Foreign Trade of SADC Countries

The SADC region has shown a modest but stable performance in terms of its global

trade. The share of SADC in Africa's total trade accounted for around 34 percent in 2010. Total trade (exports plus imports) of SADC has increased more than three-fold from US\$ 95.8 billion in 2001 to US\$ 339.1 billion in 2010, growing at a compound annual growth rate of 15.1 percent over the period, reflecting favourable growth performance of both exports and imports (**Table 1**). Exports of SADC increased more than three-fold from US\$ 48.7 billion in 2001 to US\$ 173.1 billion in 2010. Exports of almost all SADC countries registered positive growth in 2010 as a result of various stimulus packages and the recovery henceforth. The higher increase in exports in 2010 is driven by exports of South Africa and Angola, the two giants in the bloc. Growing at a similar pace, imports of SADC rose more than three-fold from US\$ 47.2 billion to US\$ 166 billion over the period 2001-10.

Table 1: Global Trade of the SADC Region (US\$ billion)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports (US\$ bn)	48.7	51.7	62.0	79.7	98.0	116.7	144.2	177.7	130.9	173.1
% growth	-4.0	6.3	19.8	28.6	22.9	19.1	23.6	23.2	-26.3	32.2
Imports (US\$ bn)	47.2	49.2	65.8	85.3	99.7	119.7	140.4	169.3	139.4	166.0
% Growth	151.7	4.2	33.9	29.7	16.8	20.0	17.3	20.6	-17.7	19.1
Total Trade	95.8	100.9	127.8	165.1	197.7	236.4	284.6	347.1	270.3	339.1
Trade Balance	1.5	2.6	-3.8	-5.6	-1.7	-3.0	3.8	8.4	-8.5	7.1

Source: World Trade Organization

Foreign Direct Investment in the SADC Region

The SADC region is seen as a favourable investment destination in Africa with its abundant natural resources. SADC members are in the process of adopting common investment policies throughout the region. The total foreign direct investment inflows to SADC peaked in 2008 to US\$ 32.7 billion driven by the resource boom, from US\$ 4.5 billion in 2000, and stood at US\$ 22.9 billion in 2009, and US\$ 20.4 billion in 2010. The SADC region accounted for 38.9 percent of FDI inflows to Africa in 2010. Angola accounted for the largest share of the FDI inflows to the SADC region as well as to Africa in 2010, with a share of about 50.3 percent in SADC's total inflows. Outflow of investment from SADC was much lower compared to the inflows, with outward direct investments (ODI) recording the maximum amount in 2006 at US\$ 6.3 billion. In 2010, ODI from SADC stood at US\$ 2 billion, with South Africa accounting for the largest share of ODI from the region, with a share of 50 percent.

India's Bilateral Trade and Investment Relations with SADC Countries

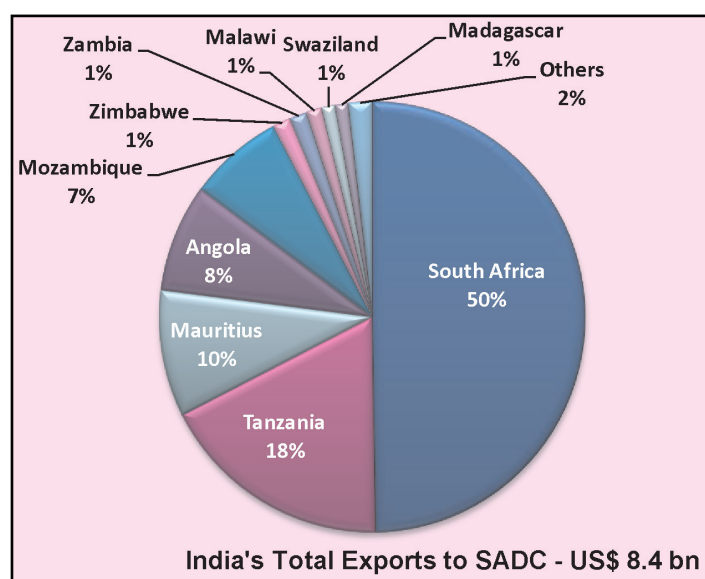
The synergy that exists between India and the SADC region, and the potential thereof, can be assessed from the robust trends in bilateral trade relations witnessed in recent years. India's total trade with the SADC region has risen more than eight-folds from US\$ 2.4 billion to US\$ 20.4 billion during the decade 2001-02 to 2010-11, with India's exports to the region amounting to US\$ 8.4 billion, and India's imports from the region aggregating US\$ 12 billion in 2010-11. The importance of the SADC region can be gauged from the fact that the region accounted for 40 percent of India's total exports to Africa during 2010-11, up from 27.5 percent recorded in 2001-02. India's total imports from the SADC region, as a percentage share of India's total imports from Africa, accounted for 37 percent during 2010-11. South Africa is India's leading export market among the SADC members, accounting for half of India's total exports to SADC in 2010-11. The other major export markets during the same year were Tanzania, Mauritius, Angola and Mozambique (Chart 1).

import sources from the SADC region in the same year (Chart 2).

According to data from Reserve Bank of India and the Ministry of Finance, Government of India, cumulative Indian investments in the SADC region during the period April 1996 to January 2012, amounted to around US\$ 28.1 billion, accounting for 17.6 percent of India's global overseas investments during the period. SADC's share in India's direct investment abroad has increased from 9.1 percent in 2002-03 to 30 percent in 2010-11. Among the SADC countries, Mauritius has been the major destination, with total investments amounting to US\$ 27.8 billion during April 1996 to January 2012, accounting for a significant 98.7 percent of total investments from India in the SADC region.

India's overall FDI inflows from SADC economies other than Mauritius has been low. As far as cumulative inflow of foreign direct investments into India is concerned, FDI inflows during April 2000 to November 2011 amounted to US\$ 62.2 billion. The largest investment flowed in from Mauritius to the tune of US\$ 62 billion, accounting for almost the entire investment flow into India from the SADC region during the period, accounting for 40.7 percent of FDI to India.

Chart 1: India's Exports to Select SADC Countries (% share 2010-11)



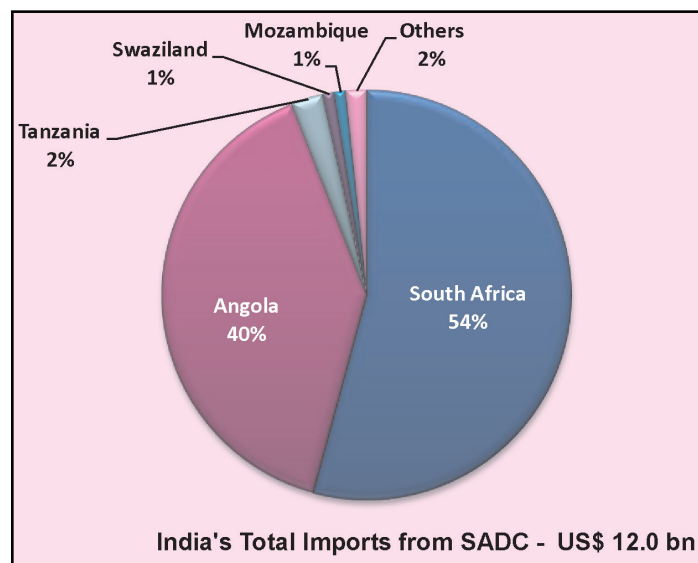
Source: Ministry of Commerce and Industry (MOCI), Government of India (GOI)

As far as imports are concerned, South Africa is again the largest supplier to India among the SADC members, accounting for 54 percent of India's total imports from the region in 2010-11. Angola and Tanzania are the other important

Institutional Frameworks & Policy Initiatives

With a view to facilitate and further enhance bilateral trade and commercial relations with countries in Africa, including the SADC region, India has put in place important policy measures as also institutional frameworks to create an enabling trade and business environment. Such initiatives have been effective in giving a new dimension to mutual cooperation and boosting the close relations between the two regions. Major policy initiatives would include, among others, Focus Africa

Chart 2: India's Imports from Select SADC Countries
(% share 2010-11)



Source: MOCI, GOI

Programme, Pan-African E-Network, India-Africa Partnership Conclaves and India Africa Summits.

Potential for Enhancing Bilateral Trade Relations Between India and SADC Countries

Based on India's export potentials and demand existing in the SADC region, the potential items for India's exports to the SADC region could broadly include: machinery & boilers, electrical and electronic equipment, vehicles other than railway or tramway, optical, photographic and medical apparatus, plastics and articles, miscellaneous chemical products, rubber and articles, ceramic products, inorganic chemicals and precious metal compounds, paper and paperboards, footwear and parts, furniture and lighting materials, sugar and sugar confectionary, milling products and tools and implements¹.

Based upon India's primary requirement of imports, items which hold potential

for imports from SADC region would include copper and articles thereof, edible fruits and nuts, wood and wood products, salt, sulphur, earth, stone, plaster, lime and cement, pearls and precious stones, coffee, tea, mate and spices, essential oils, perfumes, cosmetics and toiletries, oil seed and cotton.

goods and related services or for financing eligible turnkey projects. Exim India also extends LOCs on behalf and at the behest of Government of India.

In Africa, Exim India has 106 operative LOCs valued at US\$ 4,203 mn, as on January 31, 2012, covering more than 40 countries in the African region. In SADC region, Exim India has 39 operative LOCs amounting to US\$ 1007.3 mn, covering most of the SADC countries.

Support for Project Exports

Exim India extends both funded and non-funded facilities to Indian project exporters for overseas industrial turnkey projects, civil, civil construction contracts, supplies as well as technical and consultancy services contracts. Indian companies have implemented numerous projects in Africa, including the SADC region, with the support of Exim India, in various sectors. As on January 31, 2012, the value of project contracts secured by Indian project exporters in the SADC region, with the support of Exim India, amounted to ₹ 5.8 billion.

Association with African Development Bank (AfDB)

India is a member of African Development Bank (AfDB). Many Indian companies participate in projects funded by African Development Bank Group. Exim India works very closely with African Development Bank and has an active programme which offers a range of information, advisory and support services to Indian companies to enable more effective participation in projects funded by Multilateral Funding Agencies such as African Development Bank. Towards this end, Exim India and AfDB have signed a Memorandum of Understanding (MOU) for co-financing projects in Africa. The MOU envisages joint financing of projects (priority being given to support projects of small and medium enterprises) in regional

Exim India in the SADC Region

As a partner institution to promote economic development in Africa, the commitment towards building relationships with the African region is reflected in the various activities and programmes which Export -Import Bank of India (Exim India) has set in place, especially in the SADC countries. Exim India operates a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment relations with countries in Africa, including the SADC region.

Lines of Credit

Exim India extends Lines of Credit (LOCs) to overseas governments, parastatal organisations, financial institutions, commercial banks and regional development banks to support export of eligible goods and services on deferred payment terms. Exim India also extends overseas buyers' credit directly to foreign entities for import of eligible Indian

¹A detailed analysis of potential export commodities from India to SADC, upto 6-digit HS Code commodity classification, has been undertaken in the study

member countries of AfDB, including the SADC region. Exim India also periodically organizes Business Opportunities seminars in Projects funded by African Development Bank at various centres in India.

Global Network of Exim Banks and Development Finance Institutions (G-NEXID)

With a view to facilitating South-South trade and investment cooperation, at the joint initiative of Exim India and UNCTAD, a Global Network of Exim Banks and Development Finance Institutions (G-NEXID) was launched in March 2006 in Geneva. Annual Meetings are held to deliberate upon measures to foster long-term relationship, share experience and strengthen financial cooperation to promote trade and investment relations between developing countries. A number of institutions from Africa, including the SADC region, are G-NEXID members.

Exim India's Offices in Africa

Exim India has representative offices in Addis Ababa, Ethiopia; Johannesburg, South Africa; and Dakar, Senegal, which play a key role in facilitating economic cooperation with the African region. The representative offices interfaces with various institutions and Indian missions in the region, thereby being closely associated with the Bank's initiatives in the African region.

Strategies and Recommendations for Enhancing Bilateral Commercial Relations with the SADC Region

Agriculture and related activities constitutes the bedrock of most of the countries in SADC and exports from the sector are important foreign exchange earners for these countries. In light of this, Indian companies could invest in this sector for improving the agricultural

sector of the target country through skill development, job creation, technological upgradation, supply of quality inputs like seed, better supply chain management, and biotechnology. Since the development of a manufacturing sector is very important for the development and growth of the SADC region, India could support these countries in creating productive capacity-building through various support and training programmes and technical cooperation. Likewise, with many of the countries in the SADC region endowed with mineral wealth and natural resources, enhanced bilateral cooperation for development of natural resources in these countries could benefit both India and the region. In addition, with the emergence of countries such as Mauritius and South Africa in the SADC region as major tourism destinations receiving large number of tourist population visiting Africa, Indian companies could focus more on developing Indian-style world-class hotels and resorts. Further, given the rich cultural and geographical diversities and vast biodiversity in flora and fauna of African nations, Indian entrepreneurs could also specifically focus on different kinds of tourism products, such as adventure tourism, coastal and safari tourism; medical tourism; wildlife tourism; eco-tourism and cultural tourism.

With the strength and capability that India possesses in the realm of Information Technology sector, Indian IT firms could explore the opportunities in the SADC region, and focus on investing in subsidiaries or joint ventures in the areas of e-governance, financial services and e-education. Indian companies could also share their expertise in providing software programmes and services for banks and financial institutions in the region. Businesses focusing on health, education and skill development are more likely stable businesses, which are in increasingly high demand in many SADC countries, due to their direct impact on improving

the standard of life. Investment in infrastructure development and electricity and power generation, due to an increasing need for better infrastructural facilities, coupled with the endeavour of SADC member countries for rapid economic growth, could prove to be a mutually rewarding area of bilateral cooperation. Indian banks and financial institutions could also explore the opportunities of opening more branches/representative offices in the region, and developing correspondent banking relations with select banks in the region, which would serve to facilitate and promote commercial relations. Building closer co-operation and linkages with investment promotion agencies and Chambers of Commerce in SADC region would serve to enhance access to information about investment opportunities in the region, particularly in the SME sector wherein India has developed successful SME clusters. Multilateral funding agencies such as the World Bank, fund some of the major developmental projects in the region. Focus on these funded projects, and increased participation by Indian projects and services exporters, would serve to enhance Indian commercial presence in the region.

The contents of the publication are based on information available with Export-Import Bank of India and on primary and desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information

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